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**July 1999**

# **FOOD STAMP PROGRAM**

## **States Face Reduced Federal Reimbursements for Administrative Costs**



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**Resources, Community, and  
Economic Development Division**

B-282992

July 23, 1999

The Honorable Richard S. Lugar  
Chairman  
The Honorable Tom Harkin  
Ranking Minority Member  
Committee on Agriculture, Nutrition, and Forestry  
United States Senate

The Honorable Larry Combest  
Chairman  
The Honorable Charles W. Stenholm  
Ranking Minority Member  
Committee on Agriculture  
House of Representatives

Prior to the passage of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (Welfare Reform Act), much of the nation's federally funded public assistance was delivered under three programs: Aid to Families With Dependent Children (AFDC), providing cash assistance to needy families to help meet their living expenses; the Food Stamp Program, furnishing low-income recipients with coupons to increase their food purchasing power; and Medicaid, providing health insurance for eligible low-income families and aged, blind, or disabled people. The states, which were responsible for implementing these programs, usually charged certain administrative costs considered common to all three programs—such as participant eligibility determinations—to AFDC. With the passage of the Welfare Reform Act, AFDC was replaced by Temporary Assistance for Needy Families (TANF), a federal block grant program that serves AFDC's target population. The act based each state's TANF block grant on the state's prior AFDC spending levels, including spending for common administrative costs. However, with AFDC's termination, the states could now charge these costs directly to the Food Stamp Program and/or Medicaid, creating the potential for the states to receive duplicative funding based on these costs—through the TANF block grant and from the programs directly.

The Congress addressed this potential problem in the Agricultural Research, Extension, and Education Reform Act of 1998 (Ag Reform Act). Among other things, this act required the Department of Health and Human Services (HHS), which administers TANF and Medicaid, to determine how much of the common administrative costs for determining eligibility

that were previously charged to AFDC could have been charged to the Food Stamp Program and Medicaid, respectively. The act also required the U.S. Department of Agriculture (USDA), which administers the Food Stamp Program, to reduce future federal reimbursements of states' administrative costs for the Food Stamp Program by an amount equal to HHS' determination for this program. The act requires that GAO review and report on the adequacy of HHS' methodology for making its determinations.

Regarding this mandated study, you asked us to (1) summarize HHS' administrative cost determinations, related estimates provided by the states to HHS, and the reasons for any differences between HHS' determinations and the states' estimates, and (2) assess the reliability of HHS' determinations. You also asked us to focus our work on that portion of common administrative costs that could have been charged to the Food Stamp Program.

## Results in Brief

HHS' determinations of the portion of common administrative costs that could have been allocated to the Food Stamp Program annually exceeded, in aggregate, the states' estimates for these costs by \$61 million. Specifically, the states, including the District of Columbia, estimated that about \$166 million, in aggregate, was included in their Temporary Assistance for Needy Families block grants for common administrative costs attributable to the Food Stamp Program. In contrast, HHS determined this annual amount to be about \$227 million; because HHS' determinations are final, federal reimbursements to the states under the Food Stamp Program will be reduced by this amount, even though such determinations are subject to an administrative appeal process. HHS' determinations were greater than the individual estimates for 28 states and less than the estimate for one state—Illinois. For example, federal Food Stamp administrative cost reimbursements to Florida and New York will be reduced by an additional \$13 million and \$7.73 million respectively. Four principal reasons cited by HHS to explain the differences between its determinations and the states' estimates were the following: (1) Some states did not provide sufficient data or information within the prescribed time frames; therefore HHS relied on a formula to make determinations; (2) some states omitted administrative costs from their estimates that HHS believes should have been included; (3) some states incorrectly calculated or could not support their allocation of common administrative costs; and/or (4) some states incorrectly decreased their food stamp estimates by an amount equal to the Medicaid costs that the states had charged to the Food Stamp Program.

Regarding the reliability of HHS' determinations, our review of HHS' determinations for 10 states found significant calculation errors. Specifically, we found errors in seven of these determinations that generally resulted in underestimating costs attributable to the Food Stamp Program by \$8.8 million in aggregate—a 20-percent underestimate for these seven states; thus, the amount of the federal reimbursement for the Food Stamp Program for these states could have been reduced even more. In addition, the states have raised a number of concerns with HHS' methodology for calculating these determinations. For example, many states disagree with HHS' definition of the administrative costs associated with determining a program participant's eligibility. In general, these states contend that the Ag Reform Act calls for a narrow definition of these costs that includes only the time that staff in local welfare offices spend completing and processing participant applications; in contrast, HHS' definition includes other costs, such as those for maintaining case files and electronic databases and for training. Many states also question HHS' determination of the percentages of administrative costs that were either common to the Aid to Families With Dependent Children, Food Stamp, and Medicaid programs or unique to the Aid to Families With Dependent Children program. Among other things, these states assert that HHS has underestimated the percent of administrative costs that were unique to the Aid to Families With Dependent Children program, resulting in an overestimation of the costs common to all three programs. Because of these concerns, 40 states have appealed HHS' determinations.

Because the 40 states' appeals are currently the subject of an administrative dispute resolution process, we make no recommendations regarding HHS' determinations.

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## Background

Prior to passage of the Welfare Reform Act, most states allocated at least some common administrative costs related to qualifying individuals applying for or receiving benefits under multiple public assistance programs—AFDC, Food Stamps, and/or Medicaid—to AFDC for federal reimbursement. This method of assigning common costs to just one of several programs is known as the “primary program” method of cost allocation. In contrast, the Office of Management and Budget generally requires that common costs be allocated by program according to the extent to which each program benefits from the activities associated with these costs;<sup>1</sup> this approach is known as the “benefiting program” method

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<sup>1</sup>This requirement is found in the Office of Management and Budget's Circular A-87, Cost Principles for State, Local and Indian Tribal Governments (Aug. 29, 1997).

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of cost allocation. However, an exception was made for the public assistance programs because (1) the federal matching rate for administrative costs—50 percent or higher—was generally the same for all three programs and (2) these programs were entitlement programs, meaning there was no specified limit on federal payments that could be made under these programs. Because AFDC was the oldest of these programs, the states were allowed to charge common administrative costs to this program.<sup>2</sup>

With the passage of the Welfare Reform Act, AFDC was replaced with TANF. While there was no limit to federal matching of state administrative costs attributable to AFDC, the amount of each state's TANF block grant is fixed, as is the portion—up to 15 percent—of this block grant that can be used for administrative expenditures. As a result of this change, according to the conference report for this legislation, the states now have an incentive to allocate common administrative costs previously charged to AFDC to the Food Stamp Program and Medicaid for reimbursement because these programs continue to offer a 50-percent or higher federal match without any specified limit.<sup>3</sup> However, because the size of the TANF block grant received by each state was based on the state's prior AFDC expenditures, the Welfare Reform Act inadvertently provided funding for common administrative costs attributable to the Food Stamp Program and Medicaid in these block grants. Thus, the potential exists for states to receive duplicative funding. In 1998, the Congressional Budget Office estimated that eliminating duplicative funding based on the Food Stamp Program's administrative costs could result in federal savings totaling \$1.3 billion for fiscal year 1999 through fiscal year 2002.<sup>4</sup>

The Ag Reform Act requires HHS, in consultation with USDA and the states, to, among other things, identify for each state the common administrative costs for determining eligibility that were charged to AFDC for those states that allocated costs using the primary program method during specified

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<sup>2</sup>The states charged common administrative costs to AFDC in accordance with cost allocation plans approved by HHS. Moreover, a USDA regulation found at CFR 7 part 277.9 required the states to charge administrative costs common to the Food Stamp Program and AFDC to the latter program.

<sup>3</sup>HHS has also issued written guidance that requires the states to allocate costs on a program-by-program basis. This guidance is found in Action Transmittal 98-2 (Sept. 30, 1998), issued by the Department's Office of Grants and Acquisition Management.

<sup>4</sup>According to the Congressional Budget Office, the annual reimbursement adjustment—calculated by HHS as \$227 million—represents the minimum annual federal savings each year. The budget office maintains that actual savings will be higher because some states will reduce their total administrative spending for the Food Stamp Program in response to the reimbursement adjustments.

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base periods.<sup>5</sup> The act also requires that HHS determine how much of these common costs could have been charged to the Food Stamp Program or Medicaid. Furthermore, after HHS completes these determinations, the act requires USDA to reduce future federal reimbursements for each state's Food Stamp administrative costs by an amount equal to HHS' determination for the Food Stamp Program.<sup>6</sup> These reductions are to be made annually for fiscal year 1999 through fiscal year 2002.

To determine the amounts of common administrative costs that should be allocated to the Food Stamp Program and Medicaid, HHS first requested the states to prepare estimates of these costs. HHS provided the states with two approaches to estimating common administrative costs: (1) the analysis approach for states that had a large amount of program-specific cost allocation data for their base periods and (2) the optional formula approach for those states that did not. These approaches are discussed in greater detail in appendix I.

Once the states had prepared their cost estimates—they were due to HHS by October 15, 1998—their submissions were reviewed by several HHS offices. The initial review was performed by field staff in the Division of Cost Allocation in accordance with written guidance issued by the Department. In addition to reviewing each state's submission for completeness, these staff had the option of recalculating a state's cost allocations using the optional formula approach if the state's submission lacked sufficient support for the analysis approach. The submissions were then reviewed by the Office of the Assistant Secretary for Management and Budget.<sup>7</sup> Staff in this office had the option of making additional corrections to the states' submissions. In addition, the Office of Inspector General reviewed the submissions for three states—Ohio, Texas, and Virginia—at the request of HHS' Assistant Secretary for Management and Budget. Specifically, the Assistant Secretary asked the Inspector General

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<sup>5</sup>The determination of the costs charged to AFDC for calculating each state's TANF block grant was based on the greater of (1) the average of the state's total AFDC claims for fiscal years 1992 through 1994, (2) the state's total AFDC claim for fiscal year 1994, or (3) the state's total AFDC claim for fiscal year 1995.

<sup>6</sup>The act does not require HHS to reduce each state's Medicaid reimbursements by an amount equal to its Medicaid determination—it only requires HHS to perform the calculations.

<sup>7</sup>HHS generally did not consider a state submission to be "final" until the Division of Cost Allocation had reviewed the submission and provided the state with preliminary feedback. The final state submissions were then provided to the Assistant Secretary of Management and Budget for formal review.

to confirm whether these states used the primary or benefiting program method of cost allocation, as claimed in their respective submissions.<sup>8</sup>

The final review of the state cost estimates was performed by the Secretary of Health and Human Services. At the Secretary's discretion, further changes to a state's submission were possible. Once approved by the Secretary, the state submissions, as amended, became HHS' final administrative cost determinations for the Food Stamp Program and Medicaid, subject to appeal. HHS notified each state in writing of the Department's final determination for that state. HHS also explained in writing the reasons for any difference between HHS' determination and the state's original cost estimate.

In accordance with provisions of the Ag Reform Act, the states may appeal HHS' final administrative cost determinations. Such appeals must first be brought before an administrative law judge. The judge's ruling may be appealed to HHS' Departmental Appeals Board. The act also specifies that the results of the appeal process will not be subject to judicial review. In addition, during the appeal process, the act requires the Secretary of Agriculture to continue reducing a state's Food Stamp Program administrative payments by the amount equal to HHS' determination for that state.

## HHS' Determinations of Food Stamp Administrative Costs Substantially Exceed States' Estimates

HHS' determinations of the portion of common administrative costs that should be allocated to the Food Stamp program exceeded, in aggregate, the states' estimates for these costs by \$61 million. Specifically, the states, including the District of Columbia, estimated that about \$166 million, in aggregate, is included in their TANF block grants based on common administrative costs attributable to the Food Stamp Program that were formerly charged to AFDC during the states' respective base periods. In contrast, HHS determined this amount to be about \$227 million.<sup>9</sup> The following four principal reasons were cited by HHS to explain the differences between its determinations and the states' estimates: (1) Some states did not provide sufficient data or information within the prescribed time frames; therefore HHS relied on the optional formula to make the determinations; (2) some states excluded administrative costs from their estimates that HHS believes should have been included; (3) some states

<sup>8</sup>The Inspector General concluded that Ohio used the primary program method and that Texas and Virginia used the benefiting program method.

<sup>9</sup>States also estimated in their submissions that the total determination for Medicaid would be \$245 million. HHS determined this amount to be \$300 million.



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incorrectly computed or could not support their allocation of common administrative costs; and/or (4) some states incorrectly decreased their Food Stamp estimates by an amount equal to the Medicaid costs that the state had charged, in their base period, to the Food Stamp Program.

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## States' Estimates

The states' estimates of the portion of common administrative costs that could have been allocated to the Food Stamp Program totaled about \$166 million; this is the amount formerly charged to AFDC that was inadvertently included in the states' TANF block grants.<sup>10</sup> The aggregate total of \$166 million is based on cost estimates submitted by 31 states, including the District of Columbia; the other 20 states said that they had allocated common administrative costs using the benefiting program method during their base period and thus did not require a reimbursement adjustment to their Food Stamp Program. Of those states that submitted cost estimates, 11 chose to use the optional formula approach to calculate their cost estimates because they lacked program-specific administrative cost data, faced tight time frames, or preferred not to use the more complex analysis approach, according to HHS. The remaining 20 states used the analysis approach to arrive at their estimates.

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## HHS' Determinations

HHS determined the aggregate amount included in the states' TANF block grants that were based on common administrative costs attributable to the Food Stamp Program and charged to AFDC during the states' respective base periods to be about \$227 million, or about \$61 million more than the aggregate state estimate. Specifically, HHS determined that future reimbursements should be reduced by an amount greater than the state's estimate for 28 states, including the District of Columbia, and by an amount less than the state estimated for one state—Illinois. The increased reductions ranged from a low of \$10,000 for Wyoming to a high of \$13 million for Florida; the decreased reduction for Illinois was about \$300,000. In addition, HHS agreed with the estimates submitted by 22 of the states. In HHS' view, \$227 million represents the amount of the annual reduction that should be made to the states' reimbursements for the Food Stamp Program's administrative costs. Appendix II provides further information on the cost estimates and HHS' determinations for each state and the District of Columbia.

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<sup>10</sup>States' initial estimates totaled \$157 million. As a result of HHS' preliminary discussions with the states, the states, in aggregate, revised their final estimates to \$166 million.

HHS increased the estimates for 13 of the 20 states that stated they did not require a reimbursement adjustment because they had used the benefiting program approach to cost allocation during their base periods. In aggregate, these increases amounted to about \$19 million. In general, HHS increased the estimates for these states because their individual submissions either lacked sufficient information to support the statement that they did not require a reimbursement adjustment or because the information they provided contradicted this claim.<sup>11</sup> In recalculating these estimates, HHS generally used the optional formula approach; however, it used the analysis approach for two states that were able to provide program-specific cost data.

HHS also increased the cost estimates of 15 states, including the District of Columbia, that had stated they had used the primary program method of allocation during their base periods and thus were subject to a reimbursement adjustment under the Food Stamp Program. In aggregate, these increases amounted to about \$42 million. In general, HHS cited four major reasons for increasing these estimates: (1) Some states did not provide sufficient data or information within the prescribed time frames; therefore HHS relied on the optional formula to make determinations; (2) some states omitted administrative costs that should have been included, such as costs for maintaining case files and electronic databases, making referrals, holding hearings and appeals, investigating fraud, and conducting training; (3) some states incorrectly calculated or could not support their allocation of administrative costs, including those they claimed were unique to AFDC;<sup>12</sup> and/or (4) some states incorrectly decreased their Food Stamp estimate by amounts equal to the Medicaid costs that the states had charged, in their base periods, to the Food Stamp Program.<sup>13</sup> In recalculating these estimates, HHS used the optional formula approach for nine states, including the District of Columbia; however, it used the analysis approach for six states that were able to provide

<sup>11</sup>Documentation to demonstrate that a state used the benefiting program method of cost allocation may include (1) relevant excerpts from the state's public assistance cost allocation plan, as approved by HHS, that show that the state intended to allocate costs by program; (2) copies of correspondence or manuals prepared by the state instructing its public assistance employees on how to categorize and count various day-to-day tasks for purposes of allocating costs by program; and (3) summary schedules, including examples of the time sheets or time-and-effort reports that underlie these schedules, that show that the state's public assistance employees recorded their time charges on a program-by-program basis, as appropriate.

<sup>12</sup>For example, according to HHS, Colorado did not provide adequate support for its claim that more than 93 percent of the administrative costs it allocated to AFDC during its base period were unique to this program.

<sup>13</sup>For example, according to HHS, Florida incorrectly decreased its Food Stamp estimate by \$13 million—an amount equal to the Medicaid costs that the state had charged, in its base period, to the Food Stamp Program.

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program-specific data. Appendix III provides further information on the approaches HHS used to recalculate state submissions.

The potential impact of HHS' reimbursement adjustment determinations varies widely by state. For example, several states stand to lose less than 5 percent of their federal reimbursements for Food Stamp administrative costs, while a number of others could lose 20 percent or more of their reimbursements. From a national perspective, HHS' aggregate determination of \$227 million represents about 12 percent of the \$1.838 billion in Food Stamp administrative reimbursements made to the states, including the District of Columbia, in fiscal year 1997, the most recent year for which these data were available.<sup>14</sup> Appendix IV provides information on the percentage reduction, if any, to each state's federal reimbursement for Food Stamp administrative costs that results from HHS' determinations.

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## Calculation Errors Raise Questions About the Reliability of HHS' Determinations

Calculation errors that we noted in reviewing a limited sample of HHS' determinations raise questions about the reliability of these determinations. Specifically, we reviewed HHS' determinations for 10 of the 51 states (including the District of Columbia) and found significant calculation errors in seven of these determinations. The calculation errors found in these determinations generally resulted in an underestimation of the costs attributable to the Food Stamp Program, totaling, in aggregate, about \$8.8 million. In one case, HHS understated these costs by more than \$5 million.

In addition, many states have raised concerns with the methodology HHS used to calculate its determinations. For example, many states question HHS' definition of the administrative costs associated with determining a program participant's eligibility. In general, these states contend that the Ag Reform Act calls for a narrow definition of these costs that includes only the time that staff in local welfare offices spend completing and processing participant applications. In contrast, HHS' definition includes a number of other costs, such as those for maintaining case files and electronic databases and for conducting training, that were allocated on a primary program basis. Many states also question HHS' assumptions regarding the percentages of common administrative costs attributable to AFDC, the Food Stamp Program, and Medicaid; HHS developed these percentages to help states lacking program-specific cost data to calculate

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<sup>14</sup>Total federal spending for the Food Stamp Program in fiscal year 1997, including administrative cost reimbursements and program benefits, was about \$22.9 billion. In addition, the states' spending for administrative costs totaled about \$1.8 billion.

those portions. Among other things, these states assert that HHS has underestimated the percentage of administrative costs that were unique to AFDC and therefore overestimated the costs that are common to all three programs. Because of their concerns regarding HHS' definition and assumptions, 40 states (including the District of Columbia) are appealing HHS' determinations.

### Significant Calculation Errors Found in Seven HHS Determinations

In reviewing HHS' determinations for 10 states—California, Florida, Kentucky, Maryland, Massachusetts, Nevada, Ohio, Oregon, Texas, and the District of Columbia—we found a number of calculation errors. Specifically, we found errors in seven of these determinations that generally caused HHS to underestimate common administrative costs attributable to the Food Stamp Program by a total of \$8.8 million.<sup>15</sup> For example, we found that HHS inconsistently or incorrectly applied the optional formula approach to the determinations for five of these states—Kentucky, Ohio, Oregon, Nevada, and the District of Columbia—accounting for about \$7.1 million of this underestimation. In addition, the Department inconsistently or incorrectly applied the analysis approach to the determinations for two states—Florida and Maryland—accounting for about \$1.7 million of the underestimation. Whereas HHS determined the amount to be \$34.5 million for these seven states, we determined the amount to be \$43.3 million. The \$8.8 million difference represents a 20-percent underestimate.

The errors we noted in HHS' application of the optional formula and analysis approaches to the determinations for these states were generally related to HHS' (1) neglecting to include all administrative costs that, according to its own definition, are subject to the Food Stamp reimbursement adjustment, such as costs for the Family Assistance Management Information System; (2) failing to exclude certain costs, such as those for the Child Care Program,<sup>16</sup> that were outside the scope of HHS' definition primarily because they did not relate to assistance payments; and/or (3) miscalculating its determinations because of simple arithmetic errors. For example, HHS underestimated its determination for Ohio by more than \$5 million because of an arithmetic error in calculating the

<sup>15</sup>Our analysis focused solely on whether HHS made any calculation errors while calculating its determinations—it makes no attempt to modify HHS' definition or assumptions. Ultimately, any such changes will be the product of the ongoing appeals process between HHS and the states. We also recognize that some of the states we reviewed might provide additional data during mediation that could significantly change their Food Stamp adjustments.

<sup>16</sup>The Child Care Program provides payments to day care providers who watch the children of program participants. This program does not provide direct financial benefits to program participants.

state's federal share of administrative costs. Specifically, HHS inadvertently applied the federal matching rate for administrative costs—50 percent—twice in its calculations.<sup>17</sup> HHS officials told us that time constraints may have contributed to the calculation errors we noted. According to these officials, the Department had less than 1 month to develop determinations for all 50 states and the District of Columbia.

The extent to which HHS' determinations underestimate the common administrative costs attributable to the Food Stamp Program could be as much as \$15.3 million if HHS were to consistently follow its own rules regarding required documentation, the need to reconcile states' estimates, and the assumptions about the percentage of costs that were unique to AFDC. Specifically, in three of its determinations—those for Florida, Oregon, and the District of Columbia—HHS accepted state data that were not adequately supported; and in its determination for Maryland, HHS did not reconcile administrative costs in the state's submission with those costs actually claimed by the state in its base year.

Appendix V provides more detailed information on the errors made in the determinations for each of these states. It also provides information on the extent to which these errors caused HHS to underestimate the reimbursement adjustments for these states.

## Many States Question HHS' Definition of Common Administrative Costs

The Ag Reform Act requires HHS to identify the common administrative costs associated with determining an applicant's eligibility for benefits under AFDC, the Food Stamp Program, and Medicaid that were allocated to AFDC for reimbursement. HHS' definition of these costs has been one of the most controversial aspects of the Department's cost determinations. Many states contend that HHS exceeded the statutory authority of the Ag Reform Act, which, according to the states, intended that common administrative costs be defined narrowly, essentially including only staff costs (salaries and expenses) related to completing and processing program participants' applications. However, the Department's definition also includes other costs, as discussed, such as those for maintaining case files and electronic databases,<sup>18</sup> making referrals, holding hearings and appeals, investigating fraud, and conducting training. Specifically, HHS management concluded

<sup>17</sup>In addition to its calculation error regarding application of the federal matching rate, HHS failed to exclude about \$1.1 million in costs for the Child Care Program. This latter error partially offset the matching rate error.

<sup>18</sup>One of these databases is the Family Assistance Management Information System. Local welfare offices use this database to maintain information on their TANF, Food Stamp Program, and Medicaid participant cases.

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that the legislation required all administrative costs in support of the eligibility process be subject to adjustment if they were allocated following the primary program method.

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### Many States Also Question HHS' Assumptions Regarding the Allocation of Common Administrative Costs

Many states also question HHS' assumptions regarding the allocation of administrative costs that are common to the AFDC, Food Stamp, and Medicaid programs. Specifically, these states take issue with the percentages that HHS uses to distinguish common costs allocated to AFDC from costs that were unique to this program. HHS developed these percentages to help the states that lacked program-specific cost data to prepare their cost estimates; in particular, HHS was concerned that these states not include costs that were unique to AFDC in these estimates. However, the states generally contend that the percentages—80 percent for common costs and 20 percent for unique costs—underestimate the portion of administrative costs that are unique to AFDC and thus overstate the costs common to all three programs.

In developing these percentages, HHS recognized some of the costs charged to AFDC for eligibility determinations were common to all three welfare programs, while other costs were unique to AFDC. For example, the costs claimed for reimbursement under AFDC for completing and processing a joint public assistance application for AFDC, Food Stamp, and Medicaid benefits would include costs common to all three programs—such as those for collecting information on an applicant's name, address, and date of birth—and costs unique to AFDC, such as comparing an applicant's earned income with AFDC's eligibility criteria. Furthermore, in developing the percentages, HHS focused on the public assistance application forms used by two states—California and Illinois—and one municipality—New York City. HHS chose the application forms for these jurisdictions as examples because their public assistance programs are relatively large in terms of the number of participants and the dollar value of benefits. On the basis of its analysis using these forms, HHS determined that approximately 80 percent of the states' eligibility-related administrative costs charged to AFDC were common to AFDC, Food Stamps, and Medicaid, and about 20 percent benefited AFDC only. Relatedly, California performed an informal assessment of its eligibility-related administrative costs and reached a similar conclusion regarding the relative shares that were common and unique.

In its guidance to the states for preparing cost estimates, HHS advised them to use these percentages if they lacked program-specific cost data. Thus,

whether using the optional formula approach to calculate their costs or, in certain circumstances, the analysis approach, the states may assume that 20 percent of their eligibility-related administrative costs are unique to AFDC, even in the absence of supporting documentation. However, a state may use a higher percentage for unique costs if it has adequate documentation.

HHS' guidance acknowledges that its development of a 20-percent standard for costs unique to AFDC was based on a limited analysis of public assistance application forms. According to HHS, its analysis consisted of first counting all of the questions on the California, Illinois, and New York City application forms that benefit all three welfare programs (AFDC, the Food Stamp Program, and Medicaid) and then dividing the tally for each form by the total number of questions on the form. Many states have taken issue with HHS' 20-percent standard, contending that the portion of their eligibility-related administrative costs unique to AFDC is significantly greater than 20 percent; these states also maintain that HHS should not impose a special documentation burden on the states in which this percentage does not apply. In response, HHS maintains that the tight time frames for preparing its cost determinations, as provided for in the Ag Reform Act, precluded it from doing a more extensive analysis. However, the Department also indicated that the jurisdictions selected for its analysis were reasonably representative of the nation and that it continues to believe the 80-20 split is appropriate.

As of early April 1999, 40 states, including the District of Columbia, had filed notice with an administrative law judge that they are appealing HHS' determinations, contending, in many cases, that HHS exceeded its statutory authority in the way that it calculated these determinations. Thirty-four of these states have agreed to submit their appeals to a mediation process in accordance with provisions of the Administrative Dispute Resolution Act. The appeals of the remaining states have been stayed pending the results of the mediation process. As of June 1999, two state appeals had been resolved—Iowa dropped its appeal in late April 1999, and Indiana settled its appeal in late May 1999. Appendix VI identifies the states that filed appeals and the reasons for these appeals.

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## Agency Comments

We provided copies of a draft of this report to HHS, USDA, the National Governors' Association, and the American Public Human Services Association for review and comment. We met with officials from HHS' Office of the Assistant Secretary for Management and Budget, including

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the Deputy Assistant Secretary for Grants and Acquisition Management, and USDA's Food and Nutrition Service, including the Service's Associate Administrator and its Deputy Administrator for Financial Management. We also met with the associations' Washington, D.C., offices. In addition, HHS provided us with a letter summarizing its general comments (see app. VII). USDA, the National Governors' Association, and the American Public Human Services Association generally agreed with the facts presented in the report. HHS offered several comments regarding this presentation.

HHS noted our report does a good job of explaining the difficult requirements of the Ag Reform Act and HHS' efforts to comply with this law. However, the Department also said that the report does not fully reflect the time constraints that HHS faced in preparing its determinations, which may have contributed to the calculation errors that we found in reviewing 10 of these 51 determinations. We agree that the statutorily imposed time frame for completing the determinations may have been a factor in contributing to these errors and have noted this in our report. In addition, HHS indicated that both the states and HHS understood that the appeals process could be used to provide additional data sufficient to make determinations more precise and that the additional time provided by this process has allowed many of the initial errors in calculation to be remedied or rendered moot. We do not agree that it is sufficient for HHS to rely on the appeals process to identify and correct errors in its determinations. Finally, HHS noted that the number of states filing appeals does not necessarily call into question the reliability of the Department's determinations. We agree and have modified the report accordingly.

We also sent excerpts from a draft of this report to three state offices that we visited during the course of our audit work for review and comment. These offices are California's Department of Social Services, Massachusetts' Department of Transitional Assistance, and Maryland's Department of Human Resources. Officials of the California and Massachusetts offices generally agreed that the information in the report for their state was accurate. Maryland officials, however, generally disagreed with the calculation errors we noted in HHS' determinations for their state. Notably, the Maryland officials cited differences in the methodology or assumptions used to make the state's determination as the basis for the calculation errors we noted in that determination. We continue to believe that HHS' determination for Maryland contains significant calculation errors, a fact that is not disputed by HHS. In determining these calculation errors, we used the methodology and assumptions contained in HHS' guidance documents; the appropriateness



of this methodology and these assumptions is, in part, the subject of the ongoing appeals process. Therefore, we have not changed our report.

HHS, USDA, the National Governors' Association, and the American Public Human Services Association also provided a number of technical changes and clarifications to the report, which we incorporated as appropriate.

## Scope and Methodology

In order to summarize HHS' administrative cost determinations, related estimates provided by the states to HHS, and the reasons for any differences, we obtained and reviewed the cost estimates for all 50 states and the District of Columbia, as well as HHS' determinations.<sup>20</sup> In addition, we obtained and reviewed the letters that HHS sent to each state and the District of Columbia explaining why its determinations differed. As needed, we also discussed the states' submissions, HHS' determinations, and the associated correspondence with HHS officials, particularly those assigned to the Department's Division of Cost Allocation.

To review HHS' methodology for making its determinations, we first looked at the written guidance that HHS provided to the states and to its own employees. The guidance to the states was contained in HHS' Implementation of Cost Allocation Determinations Under the Agriculture Research, Extension and Education Reform Act (Sept. 2, 1998). Among other things, this document explained the optional formula and analysis approaches for preparing state cost estimates. The written guidance that HHS provided to its own staff is found in Guide for the Review of State Submissions Required as a Result of the Agriculture Statute to Identify and Allocate Common Costs Included in the TANF Block Grant (Sept. 17, 1998). In general, this document was intended to ensure that the reviews of states' cost estimate submissions—primarily the responsibility of field staff in the Division of Cost Allocation—would be done consistently nationwide. We also discussed these guidance documents with HHS officials in Washington, D.C., and in the Department's Northeastern Field Office.

To obtain the states' views regarding HHS' methodology, we interviewed officials from the National Governors' Association, National Conference of

<sup>20</sup>The Food Stamp Act of 1964, as amended, authorizes a regular Food Stamp Program for the 50 states, the District of Columbia, Guam, and the U.S. Virgin Islands. Variants of the regular program also operate in Puerto Rico, American Samoa, and the Northern Mariana Islands. Because the Ag Reform Act requires HHS to prepare cost determinations for the "states," HHS required only the 50 states and the District of Columbia to prepare cost estimate submissions; similarly, HHS prepared determinations only for these entities.

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State Legislatures, American Public Human Services Association, Center on Budget and Policy Priorities, and the National Association of State Human Services Finance Officers. We also met with public assistance officials in three states—California, Maryland, and Massachusetts—to obtain their views of HHS’ methodology. We selected Maryland and Massachusetts because, among other reasons, each state used the analysis approach to calculate its cost estimate; California was selected because it helped develop the optional formula approach, which it used to calculate its estimate. In addition, we reviewed documentation that describes the basis for the appeals filed by 40 states, including the District of Columbia.

To see how HHS’ methodology was applied, we conducted detailed reviews of the cost estimates prepared by 10 states, including the District of Columbia, and the related HHS determinations. This effort included reviewing the estimates and determinations for California, Florida, Kentucky, Maryland, Massachusetts, Nevada, Ohio, Oregon, and Texas, as well as the District of Columbia. We selected the estimates and determinations for these entities to ensure, among other things, that we reviewed (1) at least one state covered by each of the Division of Cost Allocation’s four field offices; (2) a mixture of states that used either the primary program method or the benefiting program method of cost allocation; (3) a mixture of states that used either the optional formula approach or analysis approach to calculate their estimates; (4) several states in which HHS’ determination differed from the state’s cost estimate; and (5) a mixture of states with relatively small, modest, or large determinations of their Food Stamp reimbursement adjustments. We discussed the cost estimates and determinations for these states with staff in field offices of HHS’ Division of Cost Allocation. We also discussed these estimates and determinations with staff of the Department’s Assistant Secretary of Management and Budget. In addition, we reviewed the results of an analysis prepared by HHS’ Office of the Inspector General in which the Inspector General sought to determine whether Ohio and Texas used the primary or program benefiting method of cost allocation to charge common administrative costs to AFDC.<sup>21</sup>

We conducted our review from November 1998 through June 1999 in accordance with generally accepted government auditing standards. We did not independently verify the accuracy of the data contained in the states’ cost estimates or in HHS’ related determinations.

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<sup>21</sup>The Inspector General also performed a similar analysis for Virginia’s cost estimate submission.

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We are sending copies of this report to appropriate congressional committees; interested Members of Congress; the Honorable Dan Glickman, Secretary of Agriculture; the Honorable Donna Shalala, Secretary of Health and Human Services; the Honorable Jacob Lew, Director of the Office of Management and Budget; and other interested parties. We will also make copies available to others on request.

If you or your staff have any questions about this report, please contact me or James Jones, Jr. at (202) 512-5138. Key contributors to this report were Elaine Boudreau, Stephen Cleary, Brian Frasier, and Patricia Gleason.

A handwritten signature in black ink, reading "Lawrence J. Dyckman". The signature is fluid and cursive, with the first name "Lawrence" and last name "Dyckman" clearly legible.

Lawrence J. Dyckman  
Director, Food and  
Agriculture Issues

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**Abbreviations**

AFDC	Aid to Families with Dependent Children
GAO	General Accounting Office
HHS	Department of Health and Human Services
TANF	Temporary Assistance for Needy Families
USDA	U.S. Department of Agriculture

# Description of HHS' Approaches for Calculating Estimated Reimbursement Adjustments for the Food Stamp Program

In July 1998, the Department of Health and Human Services (HHS) submitted to the states and the District of Columbia (hereafter referred to as "states") for their comment a draft approach to be used by the states in estimating their administrative cost determinations for the Food Stamp Program and Medicaid.<sup>22</sup> This approach, known as the "analysis approach," was designed to provide the states with a means to determine (1) the administrative costs that were related to determining program participants' eligibility and that were common to Aid to Families With Dependent Children (AFDC), the Food Stamp Program, and/or Medicaid, but that previously had been charged to AFDC only,<sup>23</sup> and (2) the portion of these costs that could have been charged to the Food Stamp Program and Medicaid if a state had allocated costs on a program-by-program basis. In using the analysis approach, the states were required to have available program-specific cost data and related documentation to substantiate the manner in which they allocated common administrative costs during selected base periods.<sup>24</sup>

In its comments on the draft approach, California proposed an alternative approach, suggesting that HHS make this approach available to the states lacking the specific data needed to use the analysis approach; among other things, this alternative approach made certain assumptions to compensate for the absence of data. HHS accepted California's suggestion, with some modifications; this approach was called the "optional formula approach." The Department's final written guidance to the states regarding the calculation of reimbursement adjustments included both approaches.

The allocation of costs common to several programs to just one of these programs, such as AFDC, is known as the primary program method of cost allocation. The allocation of common costs on a program-by-program basis according to the relative degree each program benefited from the activities associated with these costs is known as the benefiting program method of cost allocation.

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<sup>22</sup>The calculation of these determinations was required by the Agricultural Research, Extension, and Education Reform Act of 1998 (P.L. 105-185, June 23, 1998).

<sup>23</sup>Before being replaced by another program, AFDC provided cash assistance to needy families to help meet their living expenses. The Food Stamp Program furnishes low-income recipients with coupons to increase their food purchasing power. Medicaid provides health insurance to eligible low-income or needy participants.

<sup>24</sup>Each state's base period was the corresponding year or years associated with the greater of (1) the average of the state's total AFDC claims for fiscal years 1992 through 1994, (2) the state's total AFDC claim for fiscal year 1994, or (3) the state's total AFDC claim for fiscal year 1995.

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## Analysis Approach

Under the analysis approach, a state first identified the activities and associated costs that were related to determining the program participant's (or applicant's) eligibility.<sup>25</sup> The costs to be considered were those related solely to administering the state's AFDC assistance payments. Accordingly, a state was allowed to exclude any administrative costs charged to AFDC for other assistance programs, such as Foster Care, Emergency Assistance, Job Opportunities and Basic Skills, and At-Risk Child Care.

According to HHS' definition, common costs subject to reimbursement adjustments included those costs associated with staff actions in the local welfare offices to complete and process a program participant's application for public assistance during a state's base period. HHS' definition also included costs associated with a number of other activities, such as holding hearings and appeals to settle disputes regarding a program participant's eligibility; investigating fraud and abuse related to the misuse of program benefits; maintaining case files, including the periodic review of a program participant's eligibility; staff training; and the development of electronic databases, such as the Family Assistance Management Information System, used to maintain information on program participants. Relevant costs within the scope of HHS' definition also include those for local welfare office functions such as maintenance and operations, including utility costs; general and administrative, including management or overhead costs; and indirect, including the purchase of office supplies.

A state then determined which of the costs associated with eligibility determinations were allocated to AFDC following the primary program method. HHS instructed the states to make these determinations by reviewing their public assistance cost allocation plans in effect during each state's base period. Once a state made this determination, it had to calculate the amount of these costs that were common to AFDC, the Food Stamp Program, and/or Medicaid. These costs were considered common because program applicants were often eligible for benefits under two or more of these public assistance programs simultaneously. Data on the number of applicants eligible for each of these programs or concurrently eligible for two or more of these programs are known as case-mix data.

To determine the common costs associated with completing and processing a participant's application forms, a state used its case-mix data

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<sup>25</sup>States opting to use the analysis approach were given the flexibility to tailor it to their particular cost accounting practices and the nature of the available data. Where certain data no longer existed, HHS permitted the states to use approximations.

to calculate the costs of filling out these forms for this group. However, this calculation applied only to the relevant portions of the form; some of the information sought on an application form is unique to one program, such as comparing an applicant's earned income with AFDC's eligibility criteria. In cases in which a state lacked data on how much of its eligibility determination costs were unique to AFDC, HHS guidance allowed the state to assume 20 percent. On the other hand, if the state had the data needed to substantiate a higher percentage, the guidance allowed the state to use this larger number.

Once a state had calculated the total amount of its common costs related to eligibility determinations, it had to determine the portions of these costs that would constitute the reimbursement adjustments for the Food Stamp Program and Medicaid. If available, the portion for each adjustment was calculated using case-mix data. Accordingly, for cases involving applicants eligible for all three programs—AFDC, the Food Stamp Program, and Medicaid—the state assigned each program a one-third portion of the total common administrative costs. For cases in which the applicants were eligible for only two of the programs, either AFDC and Food Stamps or AFDC and Medicaid, the state assigned each program a one-half portion of these costs. If a state lacked case-mix data, HHS guidance provided that the state should simply assign to each program a one-third portion of the state's common administrative costs related to eligibility determinations.

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## **Optional Formula Approach**

Under the optional formula approach, states estimated their proposed Food Stamp Program and Medicaid determinations by

- starting with the federal share of total AFDC administrative costs for the base period;
- excluding any costs not related to AFDC assistance payment programs, such as Emergency Assistance, Foster Care, Job Opportunities and Basic Skills, and the At-Risk Child Care programs, to the extent they were charged;<sup>26</sup>
- deducting 20 percent of the administrative costs that were related to assistance payments as being unique to AFDC; the remaining 80 percent were assumed to be common to AFDC, the Food Stamp Program, and Medicaid—also referred to as common costs; and

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<sup>26</sup>HHS required the states to document any costs excluded.



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**Appendix I**  
**Description of HHS' Approaches for**  
**Calculating Estimated Reimbursement**  
**Adjustments for the Food Stamp Program**

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- calculating the state's Food Stamp and Medicaid determination as being one-third of the state's computed common costs in each case.

HHS allowed the states to modify the optional formula approach under certain circumstances. For example, if a state were able to show that it had allocated some of its base period AFDC costs following the benefiting program method, HHS allowed the state to exclude the AFDC share of these costs from its calculation. However, the state was required to document any costs excluded.

# Comparison of States' Estimates With HHS' Determinations Regarding Estimated Reimbursement Adjustments for the Food Stamp Program

Dollars in millions

State	Amount of state's estimate	Amount of HHS' determination	Difference in state's estimate and HHS' determination	Reasons offered by HHS for differences
Alabama	\$1.37	\$1.37	\$0	a
Alaska	0	1.05	1.05	b,c
Arizona	5.68	5.68	0	a
Arkansas	1.61	1.61	0	a
California	58.85	58.85	0	a
Colorado	.79	2.77	1.98	c,d
Connecticut	.91	2.73	1.82	d,e,f
Delaware	0	1.00	1.00	b,c
District of Columbia	.63	1.62	.99	d,g,h
Florida	1.41	14.41	13.00	e,f
Georgia	0	0	0	a
Hawaii	0	0	0	a
Idaho	0	1.50	1.50	b,c
Illinois	9.50	9.16	-.34	d,f,g,i
Indiana	.95	1.11	.16	e,f,g
Iowa	.98	.98	0	a
Kansas	.99	1.60	.61	g,h
Kentucky	0	4.30	4.30	b,c
Louisiana	0	1.10	1.10	b,c
Maine	.60	.60	0	a
Maryland	1.19	1.19	0	a
Massachusetts	2.08	2.08	0	a
Michigan	.16	4.78	4.62	d,f,g
Minnesota	2.38	2.38	0	a
Mississippi	.98	2.10	1.12	c,d,g
Missouri	0	0	0	a
Montana	0	.65	.65	b,c
Nebraska	0	.55	.55	b,f
Nevada	0	1.78	1.78	b,c
New Hampshire	.76	.88	.12	d,h
New Jersey	8.67	9.13	.46	e,f,g
New Mexico	0	1.42	1.42	b,c
New York	55.60	63.33	7.73	f,g
North Carolina	0	0	0	a
North Dakota	.31	.31	0	a

(continued)

**Appendix II**  
**Comparison of States' Estimates With HHS'**  
**Determinations Regarding Estimated**  
**Reimbursement Adjustments for the Food**  
**Stamp Program**

Dollars in millions

State	Amount of state's estimate	Amount of HHS' determination	Difference in state's estimate and HHS' determination	Reasons offered by HHS for differences
Ohio	.21	5.84	5.63	c,g
Oklahoma	0	4.12	4.12	b,c
Oregon	2.48	5.37	2.89	e,h
Pennsylvania	.10	.10	0	a
Rhode Island	0	.09	.09	b,f
South Carolina	.45	1.78	1.33	d,h
South Dakota	.18	.18	0	a
Tennessee	2.26	2.26	0	a
Texas	0	0	0	a
Utah	1.14	1.14	0	a
Vermont	0	.44	.44	b,c
Virginia	0	0	0	a
Washington	2.28	2.28	0	a
West Virginia	0	.57	.57	b,c
Wisconsin	0	0	0	a
Wyoming	.38	.39	.01	g,h
<b>Total</b>	\$165.88	\$226.58	\$60.70	

<sup>a</sup>No difference between the state's submission and HHS' determination.

<sup>b</sup>Information contained in the state's submission either failed to support or contradicted the state's claim that it allocated costs on a program-by-program basis (the benefiting program method of cost allocation) rather than allocating common costs to one program (the primary program method of cost allocation).

<sup>c</sup>HHS used the optional formula approach to calculate its determination. This approach is generally used in cases in which states lack reliable, program-specific cost data.

<sup>d</sup>The state miscalculated the portion of its base period administrative costs that was common to AFDC, the Food Stamp Program, and/or Medicaid.

<sup>e</sup>The state miscalculated the portion of its common administrative costs that were attributable to the Food Stamp Program and Medicaid.

<sup>f</sup>HHS made adjustments to the state's Food Stamp proposal using the analysis approach. This approach is generally used in cases in which reliable, program-specific cost data are available.

<sup>g</sup>The state did not include all of the base period administrative costs that HHS determined should be included.

<sup>h</sup>HHS made adjustments to the optional formula approach as applied by the state.

<sup>i</sup>The state included certain base period administrative costs that HHS determined should not have been included.

Source: GAO's analysis of HHS' data and related correspondence.

# Approaches Used by States and Corresponding HHS Actions to Calculate Estimated Reimbursement Adjustments for the Food Stamp Program

Approach used by state	Action by HHS	Affected states
State claimed adjustment was unnecessary because it allocated costs on a program-by-program basis in its base period (benefiting program method of cost allocation).	HHS concurred with the state's claim.	7 states—Georgia, Hawaii, Missouri, North Carolina, Texas, Virginia, and Wisconsin
State claimed adjustment was unnecessary because it used the benefiting program method in its base period.	HHS disagreed with the state's claim; HHS prepared its own determination using the optional formula approach.	11 states—Alaska, Delaware, Idaho, Kentucky, Louisiana, Montana, Nevada, New Mexico, Oklahoma, Vermont, and West Virginia
State claimed adjustment was unnecessary because it used the benefiting program method in its base period.	HHS disagreed with the state's claim; HHS prepared its own determination using the analysis approach.	2 states—Nebraska and Rhode Island
State calculated its adjustment using the optional formula approach.	HHS concurred with the state's final submission.	5 states—Alabama, Arizona, Arkansas, California, and Utah
State calculated its adjustment using the optional formula approach.	HHS made corrections to the state's final submission.	6 states—Kansas, New Hampshire, Oregon, South Carolina, Wyoming, and the District of Columbia
State calculated its adjustment using the analysis approach.	HHS concurred with the state's final submission.	3 states—Iowa, Pennsylvania, and South Dakota
State calculated its adjustments using the analysis approach.	HHS made corrections to the state's preliminary submission; HHS concurred with the state's final submission.	7 states—Maine, Maryland, Massachusetts, Minnesota, North Dakota, Tennessee, and Washington
State calculated its adjustment using the analysis approach.	HHS made corrections to the state's final submission.	7 states—Connecticut, Florida, Illinois, Indiana, Michigan, New Jersey, and New York
State calculated its adjustment using the analysis approach.	HHS rejected the state's submission because of data sufficiency concerns; HHS prepared its own determination using the optional formula approach.	3 states—Colorado, Mississippi, and Ohio

Note: HHS generally did not consider a state submission to be "final" until the Division of Cost Allocation had reviewed the submission and provided the state with preliminary feedback. The final state submissions were then provided to the Assistant Secretary of Management and Budget for formal review.

Source: GAO's analysis of HHS' information.

# HHS' Determinations as a Percentage of States' Total Reimbursements for Food Stamp Administrative Costs, Fiscal Year 1997

Dollars in millions

State	State's total reimbursement for Food Stamp administrative costs, fiscal year 1997	HHS' determination	HHS' determination as a percentage of state's total reimbursement
Alabama	\$28.68	\$1.37	5
Alaska	7.44	1.05	14
Arizona	17.00	5.68	33
Arkansas	17.78	1.61	9
California	261.03	58.85	23
Colorado	14.60	2.77	19
Connecticut	13.32	2.73	20
Delaware	6.91	1.00	14
District of Columbia	7.96	1.62	20
Florida	88.55	14.41	16
Georgia	53.39	0	0
Hawaii	10.26	0	0
Idaho	6.19	1.50	24
Illinois	67.59	9.16	14
Indiana	29.74	1.11	4
Iowa	9.83	.98	10
Kansas	8.65	1.60	18
Kentucky	27.64	4.30	16
Louisiana	41.01	1.10	3
Maine	6.36	.60	9
Maryland	18.88	1.19	6
Massachusetts	33.97	2.08	6
Michigan	68.93	4.78	7
Minnesota	31.96	2.38	7
Mississippi	26.09	2.10	8
Missouri	36.89	0	0
Montana	5.12	.65	13
Nebraska	7.83	.55	7
Nevada	7.03	1.78	25
New Hampshire	3.41	.88	26
New Jersey	73.42	9.13	12
New Mexico	15.52	1.42	9
New York	185.02	63.33	34
North Carolina	37.50	0	0
North Dakota	4.36	.31	7

(continued)

**Appendix IV**  
**HHS' Determinations as a Percentage of**  
**States' Total Reimbursements for Food**  
**Stamp Administrative Costs, Fiscal Year**  
**1997**

Dollars in millions

<b>State</b>	<b>State's total reimbursement for Food Stamp administrative costs, fiscal year 1997</b>	<b>HHS' determination</b>	<b>HHS' determination as a percentage of state's total reimbursement</b>
Ohio	79.37	5.84	7
Oklahoma	25.14	4.12	16
Oregon	21.67	5.37	25
Pennsylvania	92.50	.10	less than 1
Rhode Island	6.32	.09	1
South Carolina	18.47	1.78	10
South Dakota	4.85	.18	4
Tennessee	28.51	2.26	8
Texas	136.89	0	0
Utah	8.85	1.14	13
Vermont	5.45	.44	8
Virginia	54.53	0	0
Washington	35.55	2.28	6
West Virginia	7.43	.57	8
Wisconsin	30.15	0	0
Wyoming	2.68	.39	15
<b>Total</b>	<b>\$1,838.22</b>	<b>\$226.58</b>	<b>12</b>

Source: GAO's analysis of HHS' and U.S. Department of Agriculture's data.

# Summary of Calculation Errors GAO Found in HHS' Determinations for Seven States

State <sup>a</sup>	Amount of HHS' determination	Description of the calculation error(s) made	Amount of determination with error(s) corrected based on GAO analysis	Difference between HHS' determination and corrected determination
District of Columbia	\$1,619,000	<sup>b</sup>	\$2,551,365	\$932,365
Florida	14,409,000	<sup>c</sup>	14,642,917	233,917
Kentucky	4,301,000	<sup>d</sup>	4,674,784	373,784
Maryland	1,191,000	<sup>e</sup>	2,690,498	1,499,498
Nevada	1,781,000	<sup>f</sup>	1,839,708	58,708
Ohio	5,840,000	<sup>g</sup>	11,399,763	5,559,763
Oregon	5,370,000	<sup>h</sup>	5,512,427	142,427
<b>Total</b>	<b>\$34,511,000</b>		<b>\$43,311,462</b>	<b>\$8,800,462</b>

Note: We reviewed the Food Stamp adjustments that HHS calculated for each of these states. These adjustments are based on HHS' definition of common administrative costs for determining eligibility and assumptions regarding the percentage of these costs that were unique to Aid to Families With Dependent Children (AFDC). Our analysis solely focused on whether HHS made any calculation errors while calculating its determinations—it makes no attempt to modify HHS' definition or assumptions. Ultimately, any such changes will be the product of the ongoing appeals process between HHS and the states. We also recognize that some of the states we reviewed, for which the optional formula was applied to calculate their Food Stamp adjustments, might provide additional data during the mediation process that could significantly change the states' Food Stamp adjustments.

<sup>a</sup>Florida and Maryland used the analysis approach to estimate their food stamp adjustments; the optional formula approach was used to estimate the adjustments for the other states.

<sup>b</sup>HHS initially determined that the appropriate base period for the District of Columbia was fiscal year 1994. However, HHS based its determination on partial accounting records and work sampling study data for fiscal year 1995 because it did not realize that it had data for the District of Columbia for fiscal year 1994. Using fiscal year 1994 data, HHS' determination for the District of Columbia should have been \$2,551,365, or about \$932,365 more than HHS determined using fiscal year 1995 data.

<sup>c</sup>In trying to compensate for errors that Florida made in estimating its food stamp adjustment, HHS added the state's estimated adjustments for the Food Stamp Program and Medicaid together and allocated half of this total to each program. However, using Florida's random moment work sampling data to distinguish which common costs could have been allocated specifically to the Food Stamp Program, we determined that HHS' simplified approach underestimated Florida's food stamp adjustment by \$233,917.

<sup>d</sup>In its determination for Kentucky, HHS did not exclude Child Care Program costs that averaged \$570,809 annually from fiscal year 1992 through fiscal year 1994. In addition, HHS did not include an average of \$3,517,658 in costs per annum related to maintaining the Family Assistance Management Information System during these years. The net result of these revisions yields a corrected determination of \$4,674,784, or about \$373,784 more than HHS determined.

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**Appendix V**  
**Summary of Calculation Errors GAO Found**  
**in HHS' Determinations for Seven States**

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<sup>e</sup>In preparing its determination, HHS relied on Maryland's cost estimate, overlooking a number of errors in this estimate. Specifically, these errors included the state's (1) failure to exclude all costs related to the Emergency Assistance-Foster Care program, as provided for in HHS' written guidance; (2) inclusion of administrative costs in its allocation for Medicaid that should have been allocated to the Food Stamp Program; (3) inclusion of costs associated with the state's own public assistance program in its allocations for Medicaid; (4) miscalculation of the total amount of common administrative costs; and (5) miscalculation of the portion of the common costs that should comprise the Food Stamp Program and Medicaid adjustments. Correcting these errors yields an estimated reimbursement adjustment of \$2,690,498, or \$1,499,498 more than HHS' determination.

<sup>f</sup>HHS applied the optional formula solely to "other administrative expenditures" totaling \$6,682,422; however, in fiscal year 1995 (the base period), the actual total of Nevada's "other administrative costs" was \$8,634,705. HHS also incorrectly calculated the federal share of these costs. In addition, HHS did not include costs related to the Family Assistance Management Information System (\$5,159,510) and the Systematic Alien Verification for Entitlements Program (\$3,592). These errors resulted in HHS' underestimating Nevada's determination by \$58,708.

<sup>g</sup>HHS did not exclude all costs associated with the Child Care Program, totaling \$1,099,945 in fiscal year 1994 (the base period), from its determination for Ohio. HHS also included only about half of the AFDC administrative costs that the state claimed in that year—\$21,374,556 instead of \$42,749,111. The net result of these revisions yields a corrected determination of \$11,399,763, or about \$5,559,763 more than HHS' determination.

<sup>h</sup>In fiscal year 1995, the total federal share of administrative costs claimed by Oregon was \$30,999,145; this was \$908,380 higher than the amount HHS used in applying the optional formula approach to calculate its determination for this state. This error resulted in HHS' understating Oregon's determination by \$142,427.

The extent to which HHS' underestimated its determinations for these seven states could be as much as \$15,291,253, in aggregate, if the Department had consistently followed its own written guidance with respect to its determinations for the District of Columbia, Oregon, Maryland, and Florida. Specifically, in the case of two of its determinations—those for the District of Columbia and Oregon—HHS accepted state data that were not adequately supported. In the case of Maryland, HHS failed to consider all base period administrative costs that potentially could have been included in the Department's determination. In the case of Florida, HHS accepted a common cost rate that exceeded the 80-percent rate usually allowed by the Department.

The District of Columbia claimed that 52.8 percent of its administrative costs charged to AFDC were unique to this program, a rate considerably higher than the 20-percent rate usually allowed by HHS without documentation. Although it noted that the District of Columbia had not provided adequate documentation, HHS accepted this rate. If the standard 20-percent were used, the corrected determination for the District of Columbia (including corrections for the calculation errors we previously noted) would be \$4,324,347, or about \$2.7 million more than HHS' determination.

Oregon claimed that only 67 percent of its administrative costs were related to assistance programs, whereas HHS' guidance requires the states to assume that 100 percent of these costs are related to these programs unless otherwise documented. HHS accepted Oregon's claim, even though the Department noted the claim was not adequately supported in the state's submission. If the 100-percent standard were used, the corrected determination for Oregon (including corrections for the calculation errors we previously noted) would be \$7,993,129, or about \$2.6 million more than HHS' determination.



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**Appendix V**  
**Summary of Calculation Errors GAO Found**  
**in HHS' Determinations for Seven States**

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With respect to Maryland, we identified about \$36.8 million in additional base period administrative costs that were not considered by HHS. Specifically, HHS did not reconcile the administrative costs included in Maryland's cost estimate with the administrative costs actually claimed by Maryland in its base year. Applying the optional formula approach on this amount using a common cost rate of 31.97 percent (a rate that was determined by Maryland and accepted by HHS), the total corrected determination for Maryland (including corrections for calculation errors previously noted) could be as high as \$6,617,361, or about \$5.4 million more than HHS' determination.

Regarding Florida, our analysis of this state's Food Stamp and Medicaid cost estimates indicates that Florida used, in effect, a common cost rate of at least 90 percent for some of its costs. However, HHS' acceptance of this rate is inconsistent with the Department's written guidance, which sets the upper limit of common administrative costs at 80 percent (the other 20 percent would be considered unique to AFDC). If the standard 80-percent rate is used, the corrected determination for Florida (including corrections for calculation errors previously noted) would be \$12,953,161, or about \$1.5 million less than HHS' determination.

Source: GAO's analysis of HHS' data.

# Information on States' Appeals of HHS' Determinations

State	Filed appeal	Reason(s) for appeal	Requested mediation
Alabama	No	a	a
Alaska	Yes	b, c	Yes
Arizona	Yes	d	Yes
Arkansas	Yes	d	Yes
California	No	a	a
Colorado	Yes	e	Yes
Connecticut	Yes	d	Yes
Delaware	Yes	b	Yes
District of Columbia	Yes	f	No
Florida	Yes	d	Yes
Georgia	Yes <sup>9</sup>	e	Yes
Hawaii	No	a	a
Idaho	Yes	d	Yes
Illinois	Yes	d	Yes
Indiana	Yes	f, h, i, j	Yes
Iowa	Yes	e	No
Kansas	No	a	a
Kentucky	Yes	e	Yes
Louisiana	Yes	d	Yes
Maine	No	a	a
Maryland	Yes	d	Yes
Massachusetts	Yes	e	Yes
Michigan	Yes	d	Yes
Minnesota	No	a	a
Mississippi	Yes	d	Yes
Missouri	No	a	a
Montana	Yes	i, k	No
Nebraska	Yes	d	Yes
Nevada	Yes	b	Yes
New Hampshire	Yes	c, i, l, m, n, o	Yes
New Jersey	Yes	d	Yes
New Mexico	Yes	d	Yes
New York	Yes	i, o, p, q	Yes
North Carolina	Yes <sup>9</sup>	d	Yes
North Dakota	Yes	d	Yes
Ohio	Yes	e	No
Oklahoma	Yes	d	Yes

(continued)

**Appendix VI**  
**Information on States' Appeals of HHS'**  
**Determinations**

State	Filed appeal	Reason(s) for appeal	Requested mediation
Oregon	Yes	i, r, s	Yes
Pennsylvania	No	a	a
Rhode Island	Yes	d	Yes
South Carolina	Yes	e	No
South Dakota	Yes	d	Yes
Tennessee	Yes	d	Yes
Texas	No	a	a
Utah	Yes	d	Yes
Vermont	Yes	d	Yes
Virginia	No	a	a
Washington	No	a	a
West Virginia	Yes	d	Yes
Wisconsin	Yes <sup>g</sup>	e	No
Wyoming	Yes	i, o	Yes
Total	40 states		34 states

Note: HHS did not require the states to cite the reasons for their appeals. The reasons included in this appendix are those cited by states in their letters of appeal—other reasons might also apply.

<sup>a</sup>Not applicable.

<sup>b</sup>The state disagrees with HHS' conclusion that the state charged all common administrative costs to AFDC (the primary program method of cost allocation) during the state's base period.

<sup>c</sup>The state contends that HHS' determination fails to recognize that program applicants who were determined to be eligible for AFDC benefits in the state were categorically (automatically) considered eligible for the Food Stamp Program and/or Medicaid.

<sup>d</sup>The state maintains that HHS' determination is inconsistent with provisions of the Agricultural Research, Extension, and Education Reform Act of 1998 (Ag Reform Act).

<sup>e</sup>Reason not specified in state's letter of appeal.

<sup>f</sup>The state contends that HHS failed to provide an adequate explanation, back-up documentation, and/or calculations to support the adjustments HHS made to the state's submission.

<sup>g</sup>The state is appealing HHS' Medicaid determination only.

<sup>h</sup>The state disagrees with HHS' conclusion that the state inappropriately allocated common administrative costs between the Food Stamp Program and Medicaid.

<sup>i</sup>The state contends that the scope of HHS' definition of common administrative costs related to making eligibility determinations exceeds the definition intended by the Ag Reform Act.

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**Appendix VI**  
**Information on States' Appeals of HHS'**  
**Determinations**

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<sup>j</sup>The state maintains that some of the costs HHS included in making its determination were not allocated to AFDC using the primary program method; instead, the state indicates that it allocated these costs on a program-by-program basis (the benefiting program method of allocation), and thus these costs should not have been included in HHS' determination.

<sup>k</sup>HHS used the optional formula approach, which includes a number of assumptions regarding the allocation of costs between programs, to calculate its determination for the state. The state offers an alternative approach using program-specific cost data that the state contends will provide a more accurate result.

<sup>l</sup>The state maintains that HHS' determination relies on uncertain and/or unsubstantiated assumptions, unfairly burdening the state to disprove these assumptions.

<sup>m</sup>The state contends that HHS should have accepted the state's method for excluding administrative costs related to the Child Care and Emergency Assistance Programs from the state's submission.

<sup>n</sup>The state asserts that HHS, in developing its determination methodology, did not consult with the state as required by the Ag Reform Act.

<sup>o</sup>The state contends that reductions in federal reimbursements for the state's food stamp administrative costs, as required by Ag Reform Act, violates the intent of the Unfunded Mandates Reform Act of 1995. This latter act seeks to eliminate federal mandates that, in the absence of related federal funding, may displace essential state, local or tribal governmental priorities by shifting costs to these authorities.

<sup>p</sup>The state maintains that HHS mistakenly based its determination for the state on the amount of the administrative cost reimbursement claimed by the state in its base year rather than the amount of the reimbursement actually received by the state.

<sup>q</sup>The state contends that HHS' issuance of written guidance that the states were required to follow in calculating their administrative cost reimbursements constitutes the promulgation of "substantive standards" subject to provisions of the Administrative Procedures Act, as amended. Among other things, this act requires that federal agencies provide notice and an opportunity for comment before adopting new substantive rules; the state asserts that HHS did not comply with this provision.

<sup>r</sup>The state questions how HHS, in preparing its determination for the state, calculated the portion of the state's administrative costs that were common to AFDC, the Food Stamp Program, and Medicaid.

<sup>s</sup>The state disagrees with HHS' determination of the portions of common administrative costs attributed to the Food Stamp Program and Medicaid.

Source: GAO's analysis of HHS' and states' information.

# Comments From the Department of Health and Human Services



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

JUL 15 1999

Mr. Lawrence Dyckman  
Director, Food and Agriculture Issues  
United States General  
Accounting Office  
Washington, D.C. 20548

Dear Mr. Dyckman:

Enclosed are the Department's comments on your draft report entitled, "Food Stamp Program: States Face Reduced Federal Reimbursements For Administrative Costs." The comments represent the tentative position of the Department and are subject to reevaluation when the final version of this report is received.

The Department also provided extensive technical comments directly to your staff.

The Department appreciates the opportunity to comment on this draft report before its publication.

Sincerely,

June Gibbs Brown  
Inspector General

Enclosure

The Office of Inspector General (OIG) is transmitting the Department's response to this draft report in our capacity as the Department's designated focal point and coordinator for General Accounting Office reports. The OIG has not conducted an independent assessment of these comments and therefore expresses no opinion on them.

COMMENTS OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES ON THE  
U.S. GENERAL ACCOUNTING OFFICE'S REPORT, "FOOD STAMP PROGRAM:  
STATES FACE REDUCED FEDERAL REIMBURSEMENT FOR ADMINISTRATIVE  
COSTS"

General Comments

The General Accounting Office (GAO) staff did an exemplary job of explaining the difficult requirements of the Agricultural Research, Extension, and Education Reform Act of 1998 and the Department's effort to comply with the law. In addition, the GAO staff exercised a high degree of professionalism in conducting this complicated review.

The Agricultural Research, Extension, and Education Reform Act of 1998 imposed strict time constraints on developing a methodology to make the analyses and determinations required by the statute. In addition to Food Stamp program determinations, the statute also required similar determinations for Medicaid to determine how much of the common administrative costs for determining eligibility that were previously charged to the Department's Aid to Families with Dependent Children program could have been charged to the Food Stamp program and Medicaid, respectively. Extensive consultations with the States required a delay in the issuance of Department guidelines and increased the complexity of collecting and analyzing data in a very short period of time. At the same time, this extensive intergovernmental consultation was recognized by the National Governors' Association, the American Public Human Services Association and the National Association of State Legislatures as improving the methodology and the viability of the process.

The report does not fully reflect the time constraints that may have affected the calculation errors which GAO found in the course of their review of the Food Stamp determinations of 10 States. The Department had less than one month to collect, compile and develop proposed determinations for all 50 States and the District of Columbia for both the Food Stamp and Medicaid programs.

The report does not adequately explain that many States could not or did not submit data sufficient to make determinations more precise than using the alternative formula. Both the States and the Department understood that the appeals process could be used to provide more detailed information that could be provided to develop more precise determinations. The Department's experience to date is that the additional time provided by the appeals process has allowed for many of the initial errors in calculation to be remedied or rendered moot. Therefore, the number of State appeals does not necessarily draw into question the reliability of the Department's determinations.

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